



Your Key to Real Estate Services

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# HOUSTON REAL ESTATE TRENDS

EDITED by Kathryn Koepke

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## APARTMENTS

Hurricane Katrina greatly impacted the Houston apartment market. One year after Katrina, it is clear the effects on the apartment market have waned considerably. Absorption figures have been negative over the last three quarters, while occupancy has steadily declined over the same timeframe. Overall third quarter absorption was -1,758 units. Class C registered the largest losses, as -2,368 units were absorbed, while Class B also had significant negative absorption with -1,155 units absorbed. Class A was the only class to post positive quarterly absorption, with 1,776 units absorbed. Occupancy during the third quarter slipped below the 90% mark, to 89.75%. This is the first time occupancy has been below 90% since right before the hurricane during the second quarter of 2005. Class A occupancy remains strongest at 92.04%, followed by Class B at 90.53%. Class C and D occupancy is comparatively weak at 87.57% and 84.63%, respectively.

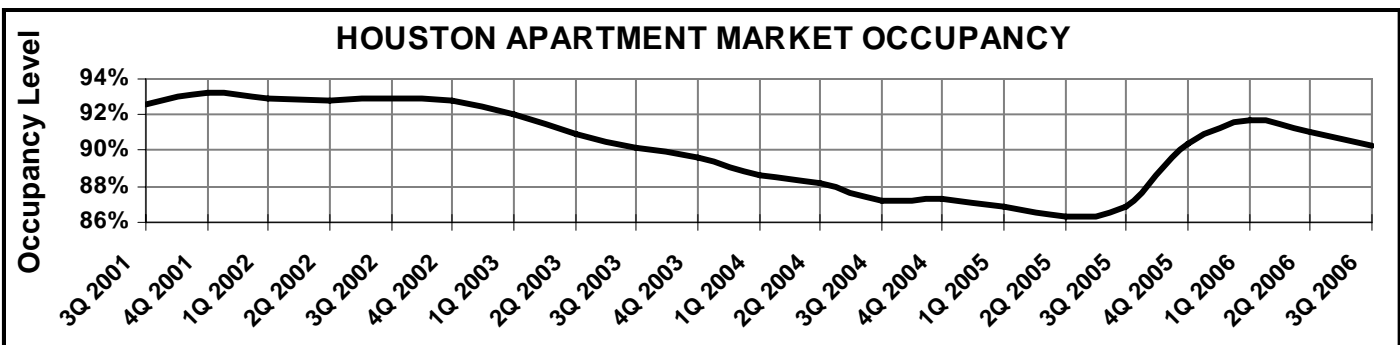
According to the O'Connor & Associates **Third Quarter 2006 Houston Apartment Data Program**, overall **occupancy** for Houston area apartments projects is **89.75%** (Class A = 92.04%; Class B = 90.53%; Class C = 87.57%; Class D = 84.63%). Occupancy is down 0.53 points from the second quarter and down 0.66 points over the past year. The overall monthly **rental rate** is **\$0.828 per square foot** (Class A = \$1.093; Class B = \$0.812; Class C = \$0.687; Class D = \$0.593). Overall rents are up \$0.003 from the second quarter of 2006 and \$0.026 over the past year.

Note: The multifamily projects listed herein are followed by their representative identification number as they appear in the new O'Connor & Associates **ApartmentLink Online Data** platform and are provided for subscriber cross-referencing. *The property information contained within this database is updated on a monthly basis and accessible over the web (please contact us for more details).*

- **Cohen Financial** (713-626-7490) arranged \$24.48 million in permanent financing on behalf of **Passco Cos.** for **Raveneaux Apartments (1262)**, a 382-unit Class A complex located at 14500 Cutten Rd. in northwest Houston (370A). The 7-year-old complex is 90% occupied with average rents at \$1.05 per square foot. **Mark Strauss** and **Bruce Krall** of Cohen Financial arranged the loan with funds provided by a Wall Street conduit.

- **Live Oak Capital** (713-993-1300) arranged \$22 million in permanent financing on behalf of **City Park Venture, Ltd.** for **Retreat at City Park (1936)**, a 288-unit Class A complex located at 1640 E. T.C. Jester in the Heights area (452X). The 4-year-old complex is 96% occupied with average rents at \$1.23 per square foot. **Bob LaRue** of Live Oak arranged the loan with funds provided by **Guardian Life Insurance Company**.
- **Capmark Finance** (713-499-4000) arranged a \$7.65-million refinancing loan on behalf of **Sharpstown Apartments, Ltd.** for **Sharpstown Garden Apartments (3173)**, a 403-unit Class C complex located at 7575 Bissonnet St. in southeast Houston (530Q). The 39-year-old complex is 94% occupied with average rents at \$0.65 per square foot. **Jim Adams** of Capmark arranged the loan with funds provided by **Citigroup Global Markets Realty**.
- **EF&A Funding** (800-522-6885) arranged a \$7.45-million refinancing loan on behalf of **Texas Bankside Village** for **Bankside Village Apartments (3202)**, a 284-unit Class C complex located at 6425 Bankside in southwest Houston (530Z). The 29-year-old complex is 95% occupied with average rents at \$0.70 per square foot.
- **LMI Capital** (281-363-4920) arranged a 10-year \$6.8 million fixed-rate loan on behalf of **Salaam Memsaab, LP** for **Shady Oaks Apartments (4352)**, a 62-unit Class C complex located at 155 Texas Ave. in League City (659F). The 35-year-old complex is 92% occupied with average rents at \$0.79 per square foot. **LMI Capital** also arranged a 10-year \$6.40 million refinancing loan on behalf of **Millennium, LP** for **Brookstone Apartments (3000)**, a 224-unit Class B complex located at 12600 Brookside Circle in the Alief area (528R). The 24-year-old complex is 98% occupied with average rents at \$0.80 per square foot. In both transactions, **Ken Lawrence** of LMI Capital arranged the financing with funds provided by **Column Financial**.

The following chart illustrates historical apartment occupancy.



**Rupert Pupkin Properties, LLC** (415-861-1643) purchased **Indian Springs Apartments (1773)**, a 408-unit Class B complex located at 3700 Watonga Blvd. in northwest Houston (451M), from **Titan Real Estate Investment Group**. The 28-year-old complex is 86% occupied with average rents at \$0.70 per square foot. **Dan Lem** of **LEM Real Estate** represented the buyer, while **Russell Jones** and **David Oelfke** of **Apartment Realty Advisors** represented the seller.

**GALP Highcross** (604-683-6187) purchased **Sandalwood Apartments (1292)**, a 352-unit Class B complex located at 311 Highland Cross Dr. in north Houston (332L), from **Merrill Lynch Capital**. The 27-year-old complex is 76% occupied with average rents at \$0.83 per square foot. GALP Highcross used in-house representation, while **Craig LaFollette**, **Todd Stewart**, **Todd Marix**, and **Tre Banks** of **CB Richard Ellis** represented the seller.

**Fowler Property Acquisitions** (415-925-3100) purchased **Park Lakes Apartments (4429)**, a 320-unit Class A complex located at 9955 Buffalo Speedway in the Texas Medical Center (532T), from **Rockwell Management Corp**. The 5-year-old complex is 94% occupied with average rents at \$1.10 per square foot. **David Mitchell** of **Apartment Realty Advisors** brokered the transaction. **Brad Smith** of **Capmark Finance** (713-499-4000) arranged \$18.4 million in acquisition financing on behalf of the buyer, with funds provided by **Principal Group**.

**Falcon Southwest** (512-377-4400) purchased **Equinox Apartments (4412)**, a 320-unit Class A complex located at 27600 N. Kings Manor Dr. in Kingwood (296X), from **The MBS Co.** The 8-year-old complex is 85% occupied with average rents at \$0.97 per square foot. The buyer used in-house representation, while **David Mitchell** and **David Wylie** of **Apartment Realty Advisors** represented the seller.

**Adan Cardenas** (713-645-9594) purchased **Gala Vista Apartments (3558)**, a 164-unit Class B complex located at 6922 South Loop E. in southeast Houston (534M), from **Gala Vista Apartments, LP.** The 47-year-old property is 90% occupied with average rents at \$0.82 per square foot. A broker with **Southwest Realtors** represented the buyer, while **Jeff Eisenhardt** and **Kevin McCarthy** of **Hendricks & Partners** represented the seller.

**Palms 1688, LP** purchased **Palms of Shady Villa (1854)**, a 70-unit Class C complex located at 7726 Shady Villa in the Spring Branch area (451X), from **Spring Shady Villas.** The 32-year-old complex is 71% occupied with average rents at \$1.03 per square foot. **Brian Janak** of **Marcus & Millichap** brokered the transaction.

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## SINGLE-FAMILY HOUSING

**MLS** home sales decreased in September, as 5,954 used homes were sold, down from the 6,981 homes sold in August, according to the **Houston Association of Realtors (HAR).** Sales for September 2006 were up 19% from September 2005. The median price of a used single-family home sold in September was \$150,000, up 3% from September of last year, while the average home price was \$199,752, up 5% from the September 2005 level. *Note: MLS sales include primarily used home sales throughout the Houston region. Historical comparisons are offered solely for informational purposes and may not truly reflect growth in sales.*

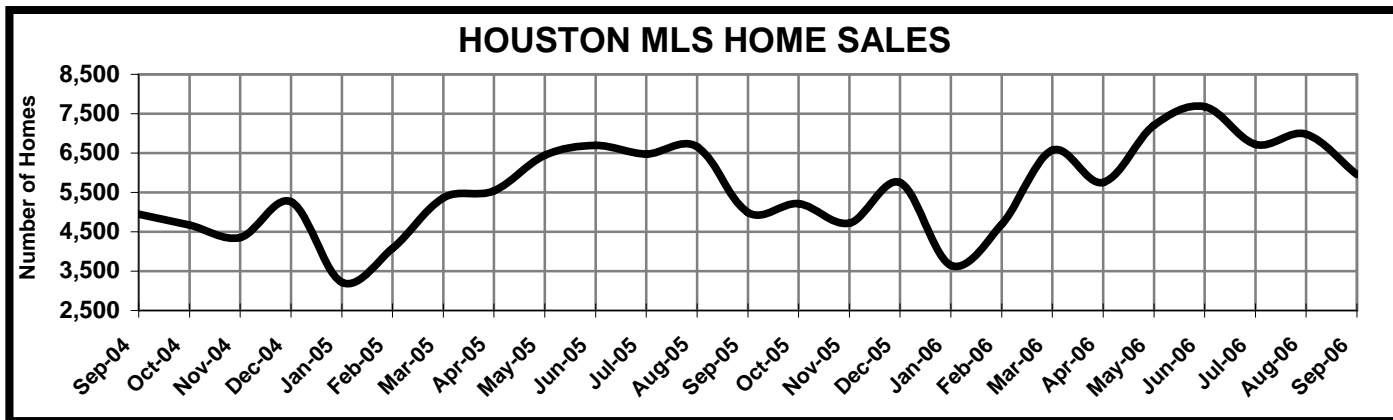
According to **American MetroStudy**, net sales of new homes decreased 6% in September to 2,385 from 2,525 in August, but are up 6% from September 2005. Realtor co-op sales represent 64% of gross sales, up from 58% in September 2005. Traffic increased 19% from last year to 28,195 in September 2006. The inventory of completed speculative homes (2,090) is unchanged from last year's inventory. There are 5,172 spec homes under construction, which is up 15% from 2005. Overall, the 7,262 specs (both completed and under construction) represent a 14% increase over 2005. *Note: the 24 homebuilders in this survey account for approximately 61% of housing starts in Houston.*

Nationwide sales of new single-family homes increased in September to a seasonally adjusted annual rate of 1,075,000, 5.3% above the revised August sales rate of 1,021,000, but 14.2% below the revised September 2005 figure, according to a release by the **U.S. Department of Commerce.** The median sales price was \$293,200. Privately owned housing starts were at a seasonally adjusted annual rate of 1,772,000 in September 2006, 17.9% below the September 2005 figure. Privately owned housing completions were at a seasonally adjusted annual rate of 2,084,000 in September 2006, 7.2% above the September 2005 figure.

The **National Association of Home Builders/Wells Fargo Housing Market Index**, a monthly measure of builder confidence, increased in October to 31 on a scale where any number greater than 50 indicates that builders view sales as more good than poor. The index measuring current sales of new single-family homes remained flat at 32, the index measuring sales expectations for the coming six months increased 4 points to 41, while the index measuring the traffic of prospective buyers increased 1 point to 23.

According to the **National Association of Realtors (NAR)**, 527,000 existing homes were sold in September 2006, down 19.3% from 653,000 sold in August. The median sale price was \$265,000, a 2.2% decrease from sale prices a year ago.

The following chart illustrates historical used home sales.



Source: Houston Association of Realtors

**Portrait Homes** (713-683-2600) is constructing 86 townhomes in **Arbors at Gleannloch Farms**, a residential community located near the intersection of Spring Cypress and Highway 249 (329P). The townhomes will range in size from 1,405 to 1,785 square feet and in price from \$145,990 to \$169,990. Construction is expected to be completed by November 2006. Portrait Homes also has plans to develop townhomes within two other residential communities. In **Havenwood at Gleannloch Farms**, which is located near the intersection of Spring Cypress and Highway 249 (329P), Portrait will build 118 townhomes that range in size from 1,201 to 1,635 square feet and in price from \$119,990 to \$143,990. Construction is expected to begin in April 2006, with completion slated for April 2008. In **Hanover**, a neighborhood located near the intersection of Highway 290 and North Eldridge Parkway (408H), Portrait plans to build 148 townhomes ranging in size from 1,292 to 1,703 square feet and in price from \$121,000 to \$133,350. Construction is scheduled to begin in May 2006, with completion expected by June 2007.

**Newmark Homes** (281-243-0100) has broken ground on **Greatwood Forest**, a 69-home neighborhood located near the intersection of Grand Parkway and the Southwest Frwy. in Sugar Land (607J). The homes will range in size from 2,600 to 4,390 square feet and in price from \$260,000 to \$350,000.

**Carmel Builders** (713-861-4689) has broken ground on **Savannah Landing**, a 21-unit townhome development on Low Country Ln. in The Woodlands' (251C). The townhomes will average 2,579 square feet in size and be priced starting in the mid-\$400,000s. The townhomes are expected to be completed by March 2007.

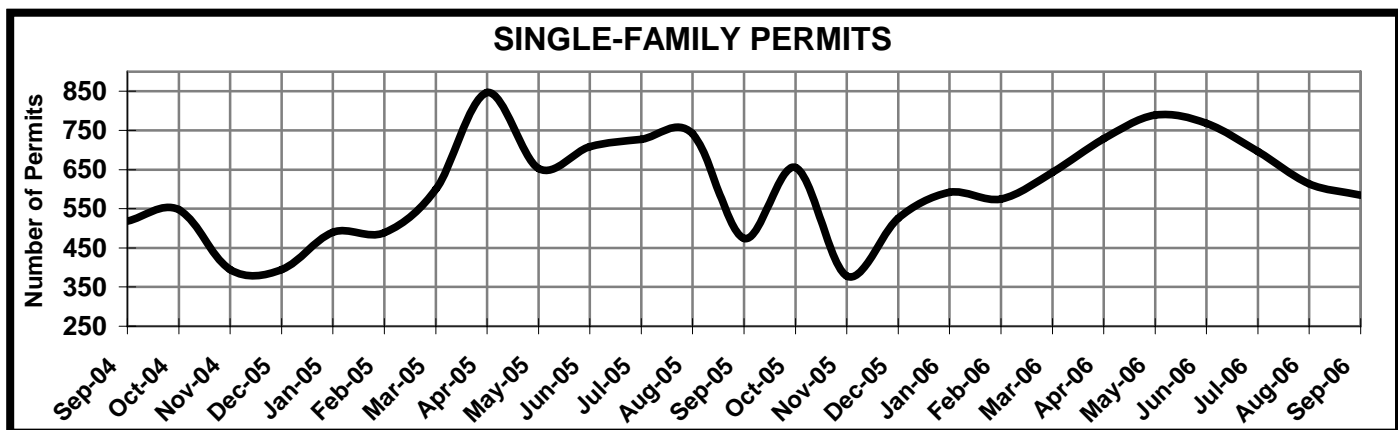
## PERMIT ISSUANCE

The **City of Houston** issued permits to build 584 private single-family houses and 28 private multifamily buildings in September. Demolition permits were issued for 142 private single-family houses. In addition, 245 permits were issued for privately owned non-residential construction totaling \$127,734,097 and 53 permits were issued for public non-residential construction totaling \$9,141,550. Additions, alterations, and conversions totaled \$70,434,840 for the private sector and \$57,755,619 for the public sector.

### Cost of Construction\*

|                    | 2004            | 2005            | 2006            |
|--------------------|-----------------|-----------------|-----------------|
| Month of September | \$267,727,258   | \$226,970,232   | \$392,166,980   |
| Year-to-Date       | \$2,610,677,178 | \$3,032,222,055 | \$3,568,741,331 |

\* The figures in this section include all categories of buildings and non-building structures



## OFFICE BUILDINGS

Houston office market occupancy increased by 1.15 points over the quarter to 85.76%, its highest level in over four years. The impressive gain was primarily driven by the Class A market, where occupancy jumped 2.90 points to 89.92%. **Chevron Corp.**'s lease of the entire 1.3-million-square-foot **Four Allen Center**, previous home of **Enron**, was the main contributor adding to the dramatic spike. Occupancy in the remaining classes declined over the quarter. Class B occupancy dropped 0.32 points to 83.13%, Class C occupancy was down 0.13 points to 81.37%, while Class D occupancy slid 0.48 points to 78.72%.

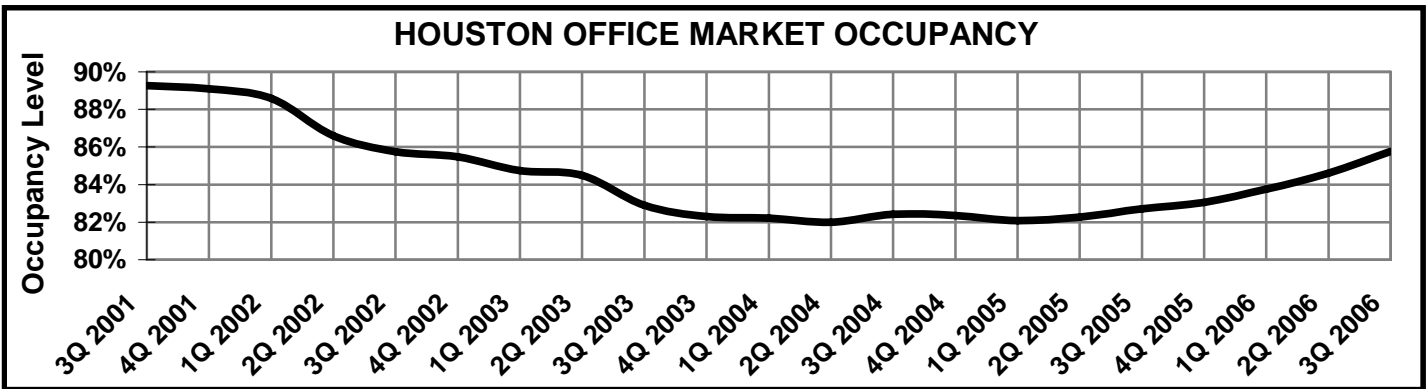
According to the O'Connor & Associates **Third Quarter 2006 Houston Office Data Program**, citywide **occupancy** for Houston area multi-tenant office buildings is **85.76%** (Class A = 89.92%; Class B = 83.13%; Class C = 81.37%; Class D = 78.72%). The citywide annual multi-tenant office **rental rate** is **\$19.24 per square foot** (Class A = \$22.46; Class B = \$17.51; Class C = \$14.00; Class D = \$11.38).

Note: The office buildings listed herein are followed by their representative sector code and identification number as they appear in the O'Connor & Associates **Houston Office Data Program** and are provided for subscriber cross-referencing. The property information contained within this database is updated and published on a quarterly basis (contact us for more information).

- **CB Richard Ellis** will acquire the **Trammell Crow Co.** for \$2.2 billion, provided the deal receives SEC approval. CB Richard Ellis intends to continue the investment and development business under the Trammell Crow brand name, which will operate as an independent subsidiary. Trammell Crow CEO **Robert Sulentic** will become president of CB Richard Ellis' investment and development business.
- **Trammell Crow Co.** (713-963-1000) has broken ground on **Energy Center I (KFW 085)**, a 330,000-square-foot office building located at the northeast corner of Eldridge Parkway and the Katy Frwy. in west Houston (488C). Another 300,000-square-foot office building (**KFW 099**) is also planned for the site. The office complex will feature an on-site café, fitness center, and conference facilities. Rents are currently quoted at \$20.00 per square foot.
- **Panattoni Development Co.** (713-630-0311) has broken ground on **4920 Westway Park Blvd. (NNW 224)**, a 132,000-square-foot office building in northwest Houston (449H). The building is the fourth spec office building to be built in the Beltway 8 Corporate Centre. Allstate Insurance Co. has signed on to lease 75,000 square feet at the new building. Quoted rents are at \$20.50 per square foot. The building is expected to be completed by May 2007.
- **Medistar Corp.** (713-840-1797) is developing a 110,000-square-foot five-story medical facility (**GPL 118**) at 4140 Southwest Freeway in the Greenway Plaza area (492W). A 40,000-square-foot office building on the site was razed to make way for Medistar's development. The new facility will include medical office space, an ambulatory surgery center, and a women's diagnostic center. The building will be connected by bridge to the **Twelve Oaks Hospital**. Construction is expected to be completed in 2008.

- **Trammell Crow Co.** (713-963-1000) has been awarded the leasing and management assignments for the majority of **Memorial Hermann Healthcare System's** medical office building portfolio in Houston. Trammell Crow will take over duties from **Mac Haik Enterprises** in mid-2007. In a separate deal, Trammell Crow was also awarded the leasing assignments for two other properties, **2100 West Loop S. (GAL 118)** and **1900 St. James Place (GAL 091)**. 2100 West Loop S. is a 183,000-square-foot Class A building located in the Galleria area (491V). The 33-year-old building is 91% occupied with average rents at \$16.50 per square foot. 1900 St. James Place is a 147,000-square-foot Class B building located in the Galleria area (491Q). The 33-year-old building is 67% occupied with average rents at \$16.50 per square foot.

The following chart illustrates historical office occupancy.



**Brookfield Properties Corp.** (212-417-7000) purchased **Four Allen Center (CBD 073)**, a 1.3-million-square-foot Class A office building located at 1400 Smith St. in the Central Business District (493Q), from **Towanda Development**. **Chevron Corp.** will lease the entire 50-story building, which was previously the home of Enron, from Brookfield. In the lease transaction, **Steve Koliba** of **Chevron Business and Real Estate Services** and **Tim Relya** of **Cushman & Wakefield** represented Chevron, while in-house brokers **Paul Layne**, **Paul Frazier**, **Steven Lukingbeal**, **Jeremiah Larkin**, and **Duncan McCuaig** represented the landlord.

**Equastone** (832-752-7371) purchased **Kirkwood Atrium III (KFW 054)**, a 280,000-square-foot Class A office building located at 11757 Katy Frwy. in west Houston (489A), from **Hampshire Properties, Ltd.** The 23-year-old building is 85% occupied with average rents at \$20.75 per square foot. Equastone plans to invest \$1 million in interior renovations. The buyer used in-house representation, while **H. Dan Miller** of **Trammell Crow Co.** represented the seller.

**Metro Clear Lake Office Partners** (281-333-4692) purchased **One Corporate Plaza (CLC 047)**, a 117,000-square-foot office building located at 2525 Bay Area Blvd. in the Clear Lake area (618L), from **Bay Area Blvd., Ltd.** The 21-year-old Class A building is fully occupied with average rents at \$17.80 per square foot. **Manny Ahsan** of **Brand Property Investments** represented the buyer, while **Colin Fox** of **Colin Fox & Associates** represented the seller.

**Oxley Leasing** purchased **11251 Northwest Freeway (NNW 081)**, a 29,000-square-foot Class C office building in northwest Houston (451Q), from **Woodward Development**. The 26-year-old building is 86% occupied with average rents at \$16.00 per square foot. **Scott Jackson** of **Burr & Temkin** represented the buyer, while **Logan Brown** with **Grubb & Ellis** represented the seller.

**Anna Kavolan** purchased **1849 Kingwood Dr. (KNG 002)**, a 13,000-square-foot Class C office building in Kingwood (336C), from **Stunja-Nowak**. The 24-year-old building is fully occupied with average rents at \$24.00 per square foot. **Doug Stanley** of **DNS Development, Inc.** represented the buyer, while **Roddy McAlpine** of **Colliers International** represented the seller.

**Cheniere Energy, Inc.** leased 102,000 square feet at **Penzoil Place (CBD 058)**, a 1.8-million-square-foot Class A office building located at 711 Louisiana St. in the Central Business District (493L), from **Sunbelt Management Co.** (561-265-1300). The 31-year-old building is 89% occupied with average rents at \$23.00 per square foot. **Chris Oliver** and **Trey Strake** of **Cushman & Wakefield** represented the tenant, while **Ben Quinton** of **Hines** represented the landlord.

**Worley Parsons Group** leased 85,000 square feet at **10500 Richmond Ave. (WES 045)**, a 105,000-square-foot Class B office building in the Westchase area (489Y), from **Zenith Real Estate Services** (713-784-1592). The 26-year-old building is fully occupied with average rents at \$15.50 per square foot. **Lou Cushman** of **Cushman & Wakefield** represented the tenant, while **Jay Kyle** and **Nelson Udstuen** of **Colliers International** represented the landlord.

**Horizon Offshore, Inc.** renewed a 70,000-square-foot lease at **2500 City West Blvd. (WES 011)**, a 574,000-square-foot Class A building in the Westchase area (489V), from **Thomas Properties Group** (213-613-1900). The 24-year-old building is 93% occupied with average rents at \$25.50 per square foot. **Chip Colvill** of **Colvill Office Properties** represented the tenant, while **Mark O'Donnell** of **Studley Houston** represented the landlord.

**AM/FM Operating** renewed a 20,000-square-foot lease at **Thirty-Fifty Post Oak (GAL 066)**, a 350,000-square-foot Class A office building in the Galleria area (491Y), from **Colonial Properties Trust** (205-250-8700). The 27-year-old building is 97% occupied with average rents at \$21.00 per square foot. **Michelle McDonald** of **Media Realty Partners** represented the tenant, while **Lee Jeane** of **Trammell Crow Co.** represented the landlord.

**Premium Drilling** leased 13,000 square feet at **2500 CityWest Blvd. (WES 011)**, a 574,000-square-foot Class A office building in the Westchase area (489V), from **Thomas Properties Group** (213-613-1900). The 24-year-old building is 93% occupied with average rents at \$14.50 per square foot. **Brad Marnitz** of **NAI Houston** represented the tenant, while **Michael Anderson** of **Covill Office Properties** represented the landlord.

**Exel** leased 12,000 square feet at **Interwood Office Building (GNB 155)**, an 80,000-square-foot Class B office building located at 4101 Interwood N. Parkway in the Greenspoint area (374T), from **Triple Net Properties** (877-888-7348). The 6-year-old building is 85% occupied with average rents at \$18.50 per square foot. **Kelley Parker III**, **John Littman**, and **H. Frank Stanley** of **Cushman & Wakefield** represented the tenant, while **Greg Tilton** of **Transwestern Commercial Services** represented the landlord.

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## RETAIL CENTERS

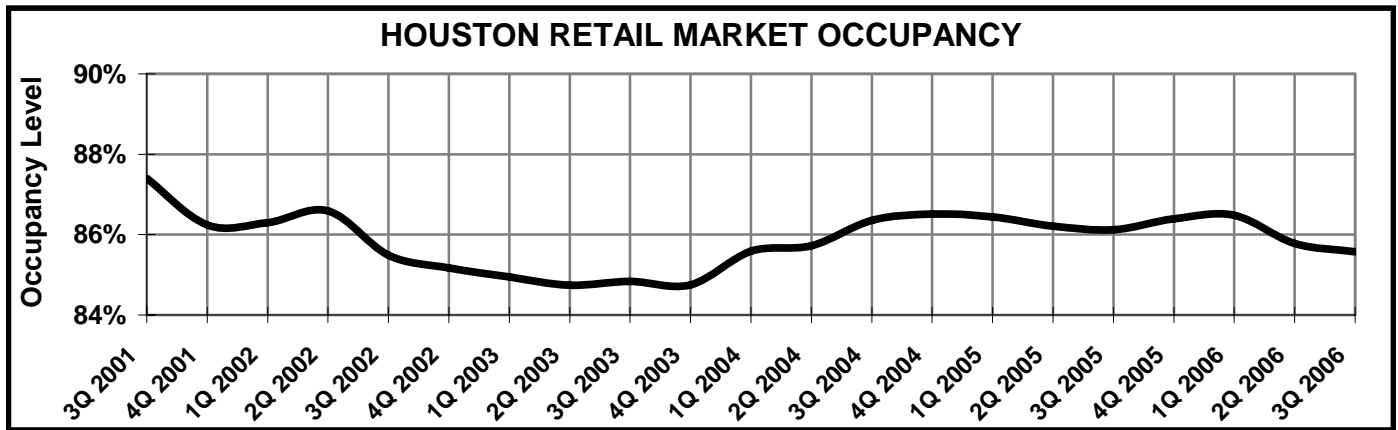
The latest economic reports on consumer spending, GDP growth, and retail and food sales may have retailers a little nervous about the upcoming, make-or-break holiday season. However, despite the gloom and doom in those reports, there are positive signs. Although overall retail sales may have been down during the month of September, several major department stores like **J.C. Penney's**, **Kohl's**, and **Federated Department Stores**, owners of **Macy's**, had a huge month in terms of sale-store sales gains. In addition, personal income increased by a solid 0.5% in September, while stock market earnings, which year-to-date total \$2.7 trillion, are quite strong. Lower energy prices are also acting to increase the amount of money in consumers' pockets. In this day and age where the national savings rate is consistently negative, more money, and especially increased stock wealth, generally translates into increased consumption spending. And increased spending definitely isn't a bad thing if you're in the retail business. Therefore, although we shouldn't expect to see a record breaking holiday shopping season, but with the expected improvement in economic fundamentals, continued low energy prices, and increasing incomes, there's no reason to suggest it's shaping up to be the worst either.

According to the O'Connor & Associates **Third Quarter 2006 Houston Retail Data Program**, citywide **occupancy** for Houston area multi-tenant retail buildings is **85.51%** (Regional = 86.03%; Community = 86.45%; Neighborhood = 85.06%; Strip = 84.36%). Occupancy is down 0.06 points over the last quarter, and 0.88 points over in the past 12 months. The citywide monthly multi-tenant retail **rental rate** is **\$1.57 per square foot** (Regional = \$2.89; Community = \$1.52; Neighborhood = \$1.15; Strip = \$1.13). Overall rents are up \$0.01 from the first quarter, and unchanged from this time last year.

Note: The retail centers listed herein are followed by their representative sector code and identification number as they appear in the O'Connor & Associates **Houston Retail Data Program** and are provided for subscriber cross-referencing. The property information contained within this database is updated and published on a quarterly basis (contact us for more information).

- An undisclosed buyer has contracted to purchase a 15-acre tract at 4444 Westheimer Blvd. (491V), which contains 655 of the 1,229 units at **Westcreek Apartments (2396 & 2397)**, from **Cypress Real Estate Advisors** and **M. Kaplan Cos., LLC**. Detailed plans have yet to be released, however it is expected that the apartments will be demolished to make way for a mixed-use development that will include a significant amount of retail space.
- **Bayou Place (INL 180)**, the 200,000-square-foot mixed-use development in the Central Business District (493L) owned by the **Cordish Co.**, has attracted a new club, **Röcbar**. Röcbar, which is set to open next month, will feature a 60-foot bar, a live music stage, a seating area, and a 20-foot video wall.
- **Houston Pavilions (INL 465)**, the proposed 800,000-mixed-use development in the Central Business District (493Q) by **William Denton** and **Geoffrey Jones**, has secured \$140 million in financing from **North Houston Bank**. Construction on the development, which has already secured commitments from **House of Blues** and **Lucky Strike**, is set to begin in early November.
- **General Growth Properties** (312-960-5000) demolished the vacant 122,000-square-foot former **Lord & Taylor** store at **Willowbrook Mall (FNW 022)**, a 1.5-million-square-foot mall located in northwest Houston (370J). Future plans for the site have yet to be finalized.
- **Perry's Restaurant Group** (281-480-3337) will open a 15,500-square-foot **Perry's Steakhouse & Grille** in the Memorial City area (490A) this November. The restaurant will front Interstate 10 and be located just east of the **Macy's** store in **Memorial City Mall (NRW 003)**. This will be the sixth and largest Perry's Steakhouse in Greater Houston and will be the first located inside Loop 610.
- **Hudson Capital Partners** (617-630-0070), a retail buyout firm, purchased the **Storehouse Furniture** chain from **Rowe Cos.**, which recently filed for Chapter 11 bankruptcy. Hudson Capital is currently in the process of liquidating all 70 of the Storehouse Furniture stores across the nation. Once the inventory is sold, all Storehouse locations, including the six in the Houston area, will be closed.
- **Ross Stores, Inc.** (925-965-4400) has purchased 46 former **Albertsons** grocery store sites in California, Florida, Texas, Arizona, Colorado, and Oklahoma. Ross Stores will convert these sites into **Ross Dress for Less** and **dd's Discount** stores, with the first stores opening in 2007.
- **H-E-B** (210-938-7577) opened its first Houston-area **Mi Tienda** grocery store, which caters to Hispanic customers with an expanded selection of customary foods. The new store is located at 1630 Spencer Highway in southeast Houston (536Y). Also catering to the Hispanic customer is **Kroger Co.** (513-762-4000), which is redesigning their 9325 Katy Frwy. store in west Houston (490C) to include more customary foods and products, an in-store tortillería, and more bilingual staff.
- **Sam Moon Group** (972-421-2700) opened a 157,000-square-foot retail center (**FNO 475**) at 17941 North Frwy. in The Woodlands area (218N). The center contains a 14,000-square-foot **Sam Moon Trading Co.**, a 9,500-square-foot **Sam Moon Luggage & Gifts** store, and an 8,000-square-foot **Sam Moon Home Décor** store. Other retails expected to open in early 2007 including **Nine West**, **Jones New York**, and **Anne Klein**. The center is 68% occupied with average rents at \$1.83 per square foot.
- **Save-A-Lot** (314-592-9100), the St. Louis-based grocer that caters to low-income customers, announced plans to open 15 to 20 grocery stores in the Houston area. Save-A-Lot grocery stores are much smaller than traditional grocery stores, averaging only 1,800 square feet in size, and primarily stock store-brand merchandise. The first two Houston area stores, to be located at 12655 Bissonnet in southwest Houston (528V) and at 8201 Broadway in southeast Houston (535T), are slated to open this November.

The following chart illustrates historical retail occupancy.



**Royal Investors Group** (310-553-2552) purchased **Westgate Shopping Center (FWE 263)**, an 86,000-square-foot center located at 19620 Katy Frwy. in west Houston (446Y), from **Gulf Coast Commercial**. The 2-year-old center is 98% occupied with average rents at \$1.92 per square foot. Tenants include **LA Fitness**, **Vitamin Shop**, and **Mattress Giant**. The buyer used in-house representation, while **George Cushing** and **Wendy Vandeventer** of **Grubb & Ellis** represented the seller.

**AmReit, Inc.** (713-850-1400) purchased **Lantern Lane (FWE 062)**, a 78,000-square-foot center located at 12530 Memorial Dr. in west Houston (489H), from **Differential Development Management, Inc.** The 46-year-old center is fully occupied with average rents at \$1.80 per square foot. Tenants include **Rice Epicurean Market**, **Encore Bank**, and **Starbucks**. **Taylor Tenel** of AmReit represented the buyer, while **Monte Tinkham** of **Monte L. Tinkham Properties** represented the landlord.

**Vicken and Zozete Baklayan** purchased **435 West Greens Rd. (FNO 238)**, a 30,000-square-foot vacant former Beall's in north Houston (372Q), from **435 Greens Ltd.** The 24-year-old property has average rents at \$0.50 per square foot. **Stephen Schorr** of **NAI Partners** represented the buyer, while **L. Ace Schlameus** of **Grubb & Ellis** represented the seller.

**LX Investment** (714-847-7800) purchased **Steeplechase Crossing (FNW 434)**, a 19,000-square-foot center located at 10511 Jones Rd. in northwest Houston (369X), from **SHN Investments**. The 3-year-old center is fully occupied with average rents at \$1.33 per square foot. **Vicki Ngo** and **Kiet Vy Luong** of **Golden Gate Real Estate Brokerage** represented the buyer, while **Micha Makowsky** at **Weaver, Davis, and Jacob** represented the seller.

**CD Family, LLC** (818-247-2347) purchased **Centre at Wallisville (NEA 340)**, a 19,000-square-foot center located at 15119 Wallisville Rd. in northeast Houston (457U), from **KM Wallisville Partners, LP.** The year-old center is fully occupied with average rents at \$1.69 per square foot. Tenants include **First Cash**, **Family Donuts**, and **Christine Dang Nail Salon**. **Richard Park**, an independent broker, represented the buyer, while **James Bell** of **Marcus & Millichap** represented the seller.

**1303 Kings Court, LLC** (415-387-5764) purchased **Kings Court Shopping Center (FSE 126)**, an 11,000-square-foot strip center located at 1303 NASA Rd. 1 in southeast Houston (618V), from **Bernstein Investments**. The 35-year-old center is 89% occupied with average rents at \$1.63 per square foot. **Mark Mason** and **John Andreini** of **Marcus & Millichap's** San Francisco office represented the buyer, while **Jerry Goldstein** of **Marcus & Millichap's** Houston office represented the seller.

**J.C. Penney** leased 100,000 square feet at **Cy-Fair Professional Shops II (FNW 336)**, a 152,000-square-foot center located at 17445 Northwest Frwy. in Cypress (367A), from **NewQuest Properties** (281-477-4300). **24 Hour Fitness** is also located in the center, which is 96% occupied. **David Stukalin** of **The Weitzman Group** represented the tenant, while **Heather Nguyen** and **Rebecca Nguyen** of NewQuest Properties represented the landlord.

**Brandon Fine Furniture** leased 25,000 square feet at **Pinecroft II Shopping Center (FNO 150)**, a 175,000-square-foot center located at 1575 Lake Woodlands Dr. in The Woodlands (252E), from **Heitman, LLC** (312-855-5700). The 8-year-old center is 82% occupied with average rents at \$2.16 per square foot. Tenants include **Ross Dress for Less**, **Best Buy**, and **Office Max**. **Steve King** of **CB Richard Ellis** represented the tenant, while **David Stukalin** and **James Namken** of **The Weitzman Group** represented the landlord.

**Ace Hardware** leased 13,000 square feet in **Jester Village Shopping Center (INL 313)**, a 64,000-square center located at 1501-1531 W. 18<sup>th</sup> St. in the Heights area (452T), from **New Plan Excel Realty** (713-665-2511). The 45-year-old center is fully occupied with average rents at \$1.00 per square foot. Tenants include **HEB Pantry**, **King Dollar**, and **Northwest Family Dentistry**. **David Stukalin** and **Greg Slusky** of **The Weitzman Group** represented the tenant, while **Kay Walker** of New Plan represented the landlord.

**Bubbles Express** leased a 39,000-square-foot pad site in front of **5950 Fairmont (FSE 162)**, a 144,000-square-foot center in Pasadena (577H), from **AS 82 Fairmont Parkway**. The 12-year-old center is 79% occupied with average rents at \$1.25 per square foot. Tenants include **24 Hour Fitness** and **Incredible Pizza**. **Stephen Tou** and **Eric Lestin** of **Wulfe & Co.** represented the tenant, while **Matt Reed** of **NewQuest Properties** represented the landlord.

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## INDUSTRIAL FACILITIES

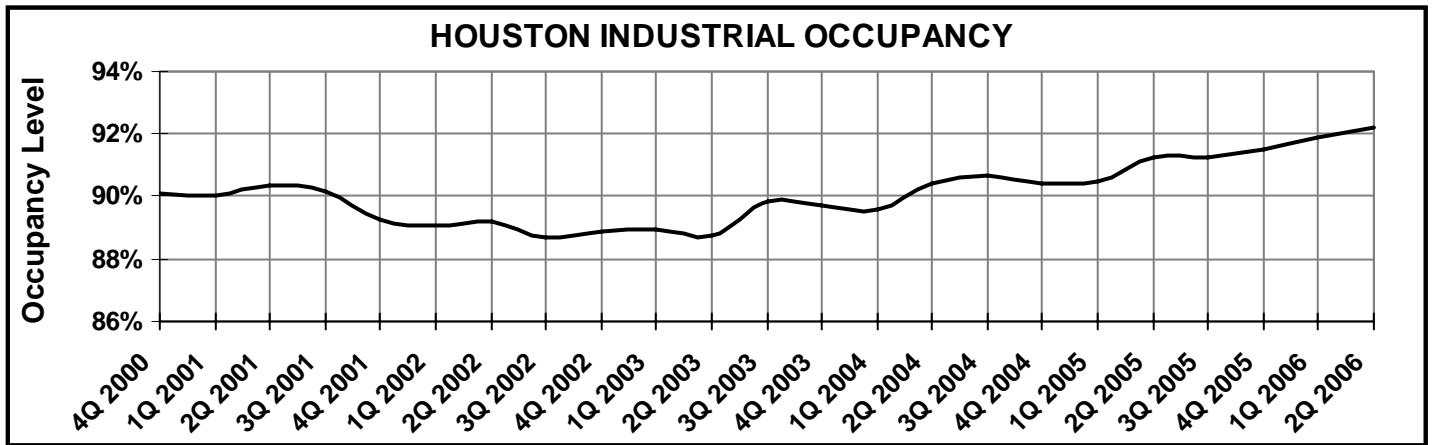
After opening their first Houston office at 1990 Post Oak Blvd. in March 2006, **Duke Realty** (713-353-3200) has made a big move in the industrial market, acquiring 51 acres in the **Westland Business Park** and another 52 acres in the **Houston Intercontinental Trade Center**. They will begin building the first facilities on the newly acquired property shortly. In Westland Business Park, Duke plans to build a 262,800-square-foot manufacturing and distribution facility (**04750**). Construction is slated to begin next month, with completion expected by July 2007. At Houston Intercontinental Trade Center, Duke will construct a 158,400-square-foot manufacturing and distribution facility (**01360**). Construction at Houston Intercontinental will begin during the first quarter of 2007, with completion slated for fall 2007. Even bigger plans are in store for the sites, as Duke eventually wants to build a total of 1.6 million square feet of industrial space on the sites.

According to the O'Connor & Associates **Second Quarter 2006 Houston Industrial Data Program**, citywide **occupancy** for Houston area operating industrial facilities is **92.23%** (Flex = 89.20%; Bulk = 93.79%; Manufacturing = 93.71%). Occupancy is up 0.35 points from the last quarter, and up 1.14 points over the last year. The overall monthly **rental rates** gained \$0.01 to **\$0.41 per square foot** (Flex = \$0.46; Bulk = \$0.37; Manufacturing = \$0.35).

Note: The industrial facilities listed herein are followed by their representative identification number as they appear in the O'Connor & Associates **Houston Industrial Data Program** and are provided for subscriber cross-referencing. The property information contained within this database is updated and published on a quarterly basis (contact us for more information).

- **Brookhollow Partners, Ltd.**, a partnership sponsored by **Nelson Duffie Interests** (713-572-2020), has acquired 27 acres within the **Brookhollow** and **Oakhollow** business parks, which are located near the Beltway 8 and U.S. Highway 290 intersection in northwest Houston (410S). Brookhollow's preliminary plans include the development of multiple freestanding user buildings on the site, some build-to-suit facilities, as well as selling off small parcels of the land.

The following chart illustrates historical industrial occupancy.



**Alloy & Steel** (713-466-3031) purchased **11800 Charles Rd. (0547)**, a 160,000-square-foot office/warehouse facility in northwest Houston (409P), from **Cooper Cameron Corp.** Alloy & Steel will occupy the entire building, which was built in 1980 and features 33- and 65-foot clearance. **Sam Burt** of **Alloy & Steel** represented the buyer, while **Thad Hickman** and **Tyndall Yaap** of **Grubb & Ellis** represented the seller.

**Texas Iron & Metal** (713-672-7595) purchased **4001 Homestead Rd. (2205A)**, a 75,000-square-foot manufacturing facility in northeast Houston (454Z), from **Friedman Industries.** Texas Iron & Metal will occupy the entire building, which was built in 1960. **Jack Butera** of **Brown, Butera, and MacDougall** represented the buyer, while **Gary Mabry** and **Michael J. Taetz** of **Colliers International** represented the seller.

**Colliers International** (713-830-2111) purchased **4711 & 4721 Clinton Dr. (3132)**, a two-building, 31,000-square-foot warehouse facility in southeast Houston (494L), from **National Western Life Insurance Co.** The 25-year-old property is currently vacant and has average rents at \$0.37 per square foot. The facility features 20-foot clearance with grade- and dock-level loading. **Chris Klein** of **Colliers International** brokered the transaction.

**DMR Interests** purchased **4929 Blalock (1277D)**, a 21,000-square foot office/warehouse facility in northwest Houston (450C), from **Chan Ju Youn** and **Kun Chee Youn.** DMR will occupy the entire facility, which was built in 1980. **Travis Land** and **John Ferruzzo** of **NAI Houston** represented the buyer, while the sellers used in-house representation.

**CFI Investments** (832-242-3700) purchased **6109 Brittmore Rd. (0626G)**, a 16,000-square-foot office/warehouse facility in northwest Houston (409Y), from **Roberts Construction.** CFI plans to occupy the entire recently completed building. **Eric Hughes** of **The National Realty Group** represented the buyer, while the seller used in-house representation.

**2212 Dwyer, LLC** (713-522-2270) purchased **2212 Dwyer (0426B)**, a 16,000-square-foot warehouse facility in northeast Houston (374V), from **Maylar.** 2212 Dwyer will occupy the entire building, which was built in 1981 and features 14-foot clearance with grade-level loading. **Greg Egan** of **LeaseSquareFeet.com** represented the buyer, while **Dan Zoch** of **Boyd Commercial** represented the seller.

**CorpCar Services** (281-367-4759) purchased **37 Lyerly (2039A)**, a 16,000-square-foot warehouse in north Houston (453F), from **Maylar.** CorpCar will occupy the entire building, which was built in 1977. **Michael Palmer** of **CB Richard Ellis** represented the buyer, while **George Jones** of **CB Richard Ellis** represented the seller.

**Texas Tire Recycling** renewed a 106,000-square-foot lease at **2300 Quitman Rd. (2770M)**, a 772,000-square-foot warehouse facility in east Houston (494A). The 86-year-old building, which is 85% occupied with average rents at \$0.17 per square foot, is owned by **Harman Real Estate Income Properties XIV** (713-467-2222). The property features 12- to 16-foot clearance with dock-level loading. **Doug Sobotik** of **Silver Creek Interests** represented the tenant, while **Jim Patton** of **Hartman Management** represented the landlord.

**Mims Meat** leased 25,000 square feet at **4731 Darien (2239A)**, a two-building, 89,000-square-foot service center in northeast Houston (455S), from **7100 North Loop, Inc.** (409-833-1908). The 28-year-old facility is fully occupied with average rents at \$0.30 per square foot. The property features 20-foot clearance with dock-level loading. **Mike Wallace** of **Colliers International** represented the tenant, while **John Ferruzzo** and **Barrett Gibson** of **NAI Houston** represented the landlord.

**Sea Quest Diving** leased **6602 Petro Park (0571A)**, a 25,000-square-foot office/warehouse property in northwest Houston (409T), from **ACC Development Corp.** (713-961-4400). Sea Quest will occupy the entire building, which was completed earlier this year. The property features 24-foot clearance with dock-level loading. **Sarah McMurry** of **MCM Commercial Real Estate Brokerage** represented the tenant, while **John Ferruzzo** and **Travis Land** of **NAI Houston** represented the landlord.

**West End Lumber Co.** leased **2600 Aldine Bender (0429U)**, a proposed 24,000-square foot office/warehouse facility in north Houston (374W), from **Stonebridge Real Estate Development & Interests** (713-439-1151). West End will occupy the entire building, which is expected to begin construction by the end of the year. **Fred Sklar** of **Sklar Realty Services** represented the tenant, while **John Ferruzzo** and **Travis Land** of **NAI Houston** represented the landlord.

**Masters Distribution Systems** leased 12,000 square feet at **Post Oak Business Center 7 (1745)**, a 67,000-square-foot office/warehouse facility located at 1430 N. Post Oak near the N. Post Oak Rd. and Hempstead Hwy. intersection (451Z), from **ProLogis** (713-682-2292). The 28-year-old building is 81% occupied with average rents at \$0.45 per square foot. The building features 18-foot clearance with dock-level loading. **John Ferruzzo** of **NAI Houston** represented the tenant, while **Holden Rushing** of **ProLogis** represented the landlord.

**RPM Co.** leased 10,000 square feet at **6008 Griggs Road (4436)**, a two-building, 225,000-square-foot warehouse facility in south Houston (534K), from **Cobalt Capital Partners** (972-893-7000). The 41-year-old property is fully occupied with average rents at \$0.30 per square foot. The building features 20-foot clearance with dock-level loading. **Darren O'Connor** of **NAI Houston** represented the tenant, while **Patrick Rollins** of **Trammell Crow Co.** represented the landlord.

**Advanced Growing Systems** leased 10,000 square feet at **3012 Farrell Rd. (0128)**, a 65,000-square-foot office/warehouse facility in north Houston (331U), from **Farrell Road Properties** (713-722-7800). The property is 85% occupied with average rents at \$0.44 per square foot. The building features 18-foot clearance with grade-level loading. **Josh Sebesta** of **Bernell and Associates** represented the tenant, while **Mike Spears** and **Randal Vaughn** of **National Realty Group** represented the landlord.

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## VACANT LAND

**James Kuehn** purchased 1,269 acres of land in Waller County near Magnolia from **Mill Creek, Ltd** for \$6.75 million. A single-family subdivision with an estimated 450 homes will likely be built on the tract. **Dave Ramsey** of **NewQuest Properties** brokered the transaction.

**Westfield Forest** purchased 20 acres of land near the intersection of Brittmore Rd. and Hammerly Blvd. in west Houston (449Q) from **Brittmoore Hammerly Partnership** for \$2.19 million. The buyer used in-house representation, while **David Cook**, **Jeff Peden**, **Marshall Davidson, Jr.**, and **Graham Horton** of **Cushman & Wakefield** represented the seller.

**G.I. Fox Holdings** purchased 6.7 acres of land at 11930 Proctor Rd. in north Houston (411G) from **B&B Joint Venture** for \$1 million. **Bob Nichilo** of **McDade, Smith, Gould, Johnston, & Mason** represented the buyer, while **Thad Hickman** and **Tyndall Yaap** of Grubb & Ellis represented the seller.

**Leaman Building Materials** (281-238-1100) purchased 2 acres of land on Houston St. north of Highway 290A in Rosenberg (604L) from **Union Pacific Railroad Co.** for \$177,000. **Franklin Denson** of **Hankamer & Associates** represented the buyer, while the seller used in-house representation.

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## ECONOMIC & FINANCIAL NEWS

The **total number of wage and salary jobs** in the ten-county Houston area **increased by 19,200 jobs** to 2,422,300 in September 2006, according to the **Texas Workforce Commission**. This month's total is **66,700 jobs more** than the 2,375,500 jobs at this time last year. Of nonagricultural employers, the Government sector posted the largest gain over the last month at 18,000 jobs, followed by the Professional & Business Services sector, with 2,500 jobs gained. Over the year, the Professional & Business Services sector has changed the most, adding 19,200 jobs.

The following chart illustrates total non-agricultural employment in the Houston MSA.



Source: Texas Workforce Commission (TWC)

Advance estimates reported by the **U.S. Department of Commerce** show that seasonally adjusted national retail and food services sales for September 2006 were \$366.2 billion, a decrease of 0.4% from the previous month, but up 5.5% from September 2005. Retail trade sales were down 0.6% from August, but were 5.2% above last year's level. The largest annual sales increases were found in nonstore retailers, where sales were up 12.9% from last year, and in clothing and accessories stores, where sales were up 10.7% from the last year.

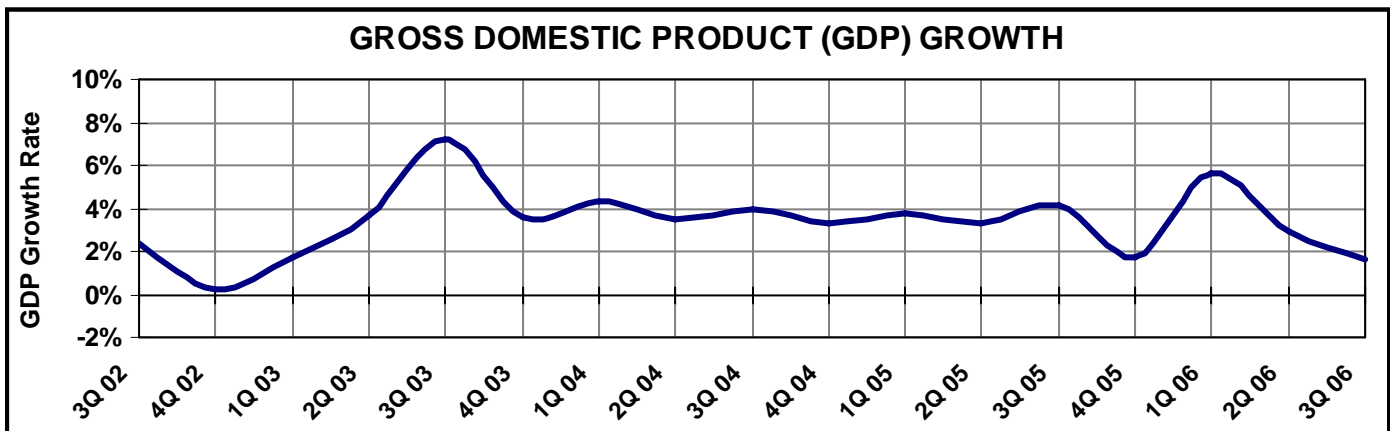
Personal income increased \$53.0 billion, or 0.5%, and Disposable Personal Income (DPI) increased \$49.3 billion, or 0.5%, in September 2006, according to the **Bureau of Economic Analysis**. Personal Consumption Expenditures (PCE) increased \$15.3 billion, or 0.2% in September 2006. Meanwhile, the **U.S. Department of Labor** reports that the seasonally adjusted Consumer Price Index (CPI) for urban consumers declined 0.5% in September 2006, and is 2.1% higher than September 2005. Apparel and other goods and services posted the largest increases in price during August 2006.

The latest **Conference Board Survey** indicates that the **Consumer Confidence Index** increased to 104.5 in September 2006, up 4.3 points from 100.2, in August. The index is an indicator of consumers' overall assessment of current conditions, relative to a figure of 100 in 1985, the base year. The **Index of Leading Economic Indicators** increased 0.1% in September to 137.7. The index is an indicator of direction the economy is expected to take in coming months, relative to a figure of 100 in 1996, the base year.

According to the **Federal Reserve**, industrial production decreased 0.6% in September after having remained flat in August, and is 5.6% higher than the September 2005 level. Output in the manufacturing sector declined 0.3% in September, output of utilities declined 4.4% over the month, while output at mines increased 0.7%. The rate of industrial capacity utilization was 81.9% in September, which represents a 0.6-point decrease from the previous month, but a 2.0-point increase from the previous year's level.

**Freddie Mac** reports that the **30-year fixed-rate mortgage (FRM)** averaged 6.40% in September 2006. One year ago, the 30-year FRM was at 5.77%. The average for the **15-year FRM** in September was 6.08%, up 0.72 points from one year ago.

The **U.S. Department of Commerce** reports that real GDP, the output of goods and services produced by labor and property in the United States, increased at an annual rate of 1.6% in the third quarter of 2006, down from the 2.6% growth rate recorded in the second quarter of 2006. The increase in GDP during the third quarter was attributed to positive contributions from personal consumption expenditures, exports, equipment and software, nonresidential structures, and state and local government spending.



Source: Department of Commerce

The **Federal Reserve** left the federal funds rate untouched at 5.25% at their October session, marking the third consecutive meeting where the rate has gone unchanged. The funds rate is the interest that banks charge each other for overnight loans and is the Federal Reserve's most potent tool for influencing the economy.

The **U.S. Department of Commerce** reports that construction spending during September 2006 was estimated at a seasonally adjusted annual rate of \$1,195.9 billion, 0.3% below the revised August 2006 estimate. The September figure is 2.9% above the September 2005 estimate of \$1,162.1 billion. Private residential construction was at a seasonally adjusted annual rate of \$610.0 billion in September, 1.1% below the revised August estimate of \$617.0 billion, and 6.9% below the September 2005 estimate of \$655.0 billion.

The **Baker Hughes** count of active domestic rotary rigs is up from 1,738 in August to 1,739 in September. The rig count in September is up 19.8% from the September 2005 figure of 1,452 rigs. The rotary rig count is a census of the number of drilling rigs actually exploring for or developing oil or natural gas in the United States.

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# POTPOURRI

**Houston City Council** approved a new measure to extend the ban on smoking, which currently only applies to restaurants, to include most bars and other public facilities. Smoking will still be permitted on outdoor bar patios and in cigar bar-type establishments. Those found in violation of the new ordinance could face up to a \$2,000 fine. The extended ban is scheduled to go into effect in September 2007.

The **Compass Bank Texas Business Leaders Confidence Index** declined 2 points from the previous quarter. The Index measures the confidence of Texas business leaders in the market for the next quarter. The decline suggests the leaders expect to see a slightly slower pace of expansion.

**The Children's Museum of Houston** (713-522-1138), located at 1500 Binz St. in the Museum District (533A), announced plans for a \$35 million expansion project, which will double the amount of existing exhibition space. The Children's Museum will also increase its community outreach programs. The Children's Museum of Houston is ranked as the nation's second best children's museum by **Child Magazine**.

**Texas Children's Hospital** (832-824-1000) has announced plans for a \$1.5 billion expansion. The expansion plans call for the construction of 700,000-square-foot maternity center, which will be connected to the main hospital campus located at 6621 Fannin St. in the Medical Center (532H), a 400,000-square-foot neurological research center, and a new satellite hospital to be built near the intersection of Interstate 10 and Barker-Cypress Rd. in west Houston (486D). Construction of all three facilities is expected to be completed by 2010.

A group of local physicians is developing the **Emergency Health Centre** at 22475 Tomball Parkway (Highway 249) in the Willowbrook area (329N). The 15,000-square foot facility will be equipped to handle minor injuries, as well as major medical emergencies like a stroke or heart attack. The Health Centre, which is slated to open in March 2007, will feature a lab, imaging center, ambulance bay, and back-up power.

The **First Methodist Church** (832-668-1800) is considering options for a lot they own in the Central Business District (493Q). The lot is bounded by Clay, Fannin, Bell, and Main and is currently leased to a parking lot operator. The Church is also exploring options for some property they own in the Westchase area. **David Cook, Jeff Peden, Marshall Davidson, and Graham Horton** of **Cushman & Wakefield** are marketing the tract.

**Lowe Enterprises Investors** (310-820-6661), a real estate investor and developer based out of Los Angeles, CA, purchased **Hotel Icon**, a 135-room luxury hotel located at 220 Main St. in the Central Business District (493M), from a group headed by developer **Randall Davis**. The hotel features a day spa, exercise room, and 5,000 square feet of meeting space.

**Hakeem Olajuwon** purchased the famed **West Mansion** property, located at 3303 E. NASA Parkway in the Clear Lake area (619P), from the **Pappas** family. The mansion, which was once home to businessman James Marion West, sits on 41 acres. It is expected that the land will be divided and sold to developers.

Please direct any questions regarding content in the *Houston Real Estate Trends* to Kathryn Koepke at 713-686-9955 or [kkoepeke@poconnor.com](mailto:kkoepeke@poconnor.com)



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